

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Gun Lake Area Sewer Authority		County Barry	
Fiscal Year End December 31, 2006		Opinion Date February 9, 2007		Date Audit Report Submitted to State February 27, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

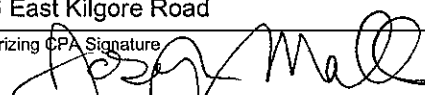
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	No other documents required	
Certified Public Accountant (Firm Name) Siegfried Crandall PC			Telephone Number 269-381-4970	
Street Address 246 East Kilgore Road			City Kalamazoo	State MI
			Zip 49002	
Authorizing CPA Signature 		Printed Name Joseph M Walls, CPA		License Number 1101013696

Gun Lake Area Sewer Authority
Barry County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Years ended December 31, 2006 and 2005

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - iii
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS	
Statement of net assets	4
Statement of revenues, expenses, and changes in net assets	5
Statement of cash flows	6
Notes to financial statements	7 - 10
SUPPLEMENTAL INFORMATION	
Statement of operating expenses before depreciation - budget to actual	11

INDEPENDENT AUDITORS' REPORT

**Members of the Board
Gun Lake Area Sewer Authority**

We have audited the accompanying basic financial statements of the Gun Lake Area Sewer Authority, as of December 31, 2006 and 2005, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Gun Lake Area Sewer Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gun Lake Area Sewer Authority at December 31, 2006 and 2005, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, on pages i through iii, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2006 financial statements. The accompanying supplementary information on page 11 is presented for the purpose of additional analysis and is not a required part of the 2006 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 financial statements taken as a whole.

Siegfried Crandall P.C.

February 9, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gun Lake Area Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Gun Lake Area Sewer Authority's operations over the fiscal year and its financial condition on December 31, 2006.

FINANCIAL HIGHLIGHTS

- The Authority's total net assets decreased \$(383,386) as a result of this year's activities.
- Total net assets, in the amount of \$10,650,206, were reported, of which \$8,465,007 is invested in capital assets. This leaves the Authority with unrestricted net assets of \$2,185,199.

Overview of the financial statements

The Statement of Net Assets reports all of the Authority's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority, better off or worse off as a result of this year's activities?

The statement of cash flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Authority's case, assets exceeded liabilities at the end of the fiscal year by \$10,650,206. The Authority's investment in capital assets (e.g., infrastructure, building, and equipment), a component of the total net assets, amounts to \$8,465,007. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs. The remaining net assets, in the amount of \$2,185,199, is unrestricted.

Gun Lake Area Sewer Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information
Net assets

	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,249,454	\$ 2,009,976
Capital assets	<u>8,465,007</u>	<u>9,086,506</u>
Total assets	<u>10,714,461</u>	<u>11,096,482</u>
Current liabilities	<u>64,255</u>	<u>62,890</u>
Net assets:		
Invested in capital assets	8,465,007	9,086,506
Unrestricted	<u>2,185,199</u>	<u>1,947,086</u>
Total net assets	<u>\$ 10,650,206</u>	<u>\$ 11,033,592</u>

Changes in net assets. The Authority experienced a decrease in net assets of \$383,386 during the current fiscal year compared to a decrease of \$423,425 in the prior year. The decreases are attributable to depreciation expense associated with assets acquired through capital contributions. The decrease for 2006 is lower as a result of increases in customer rate charges.

The Authority's total revenues were \$1,126,194. Virtually all of the Authority's revenues come from user fees. During the current year, the Authority charged \$992,046 for its services, received \$64,828 in return on investments and another \$63,358 in connection fees.

The total cost of the Authority's operations amounted to \$1,509,580 in 2006 compared to \$1,431,212 in 2005, or a 5.5 percent increase. More than 33 percent of the costs are personnel costs, while nearly 25 percent represents plant operations and maintenance, excluding depreciation.

Condensed financial information
Changes in net assets

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 992,046	\$ 867,225
Other	5,962	21,920
Nonoperating revenues:		
Connection fees	63,358	82,582
Interest income	<u>64,828</u>	<u>36,060</u>
Total revenues	<u>1,126,194</u>	<u>1,007,787</u>
Operating expenses	<u>1,509,580</u>	<u>1,431,212</u>
Change in net assets	<u>\$ (383,386)</u>	<u>\$ (423,425)</u>

Gun Lake Area Sewer Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets

Capital assets

The Authority's investment in capital assets as of December 31, 2006, amounts to \$8,465,007 (net of accumulated depreciation). Capital assets include utility system infrastructure, buildings, land improvements, shop and office equipment.

More detailed information about the Authority's capital assets is presented in Note 5 of the notes to the financial statements.

Economic condition and outlook

The Authority continues to rely on support from its usage charges to finance all operating costs and capital acquisitions.

Contacting the Authority's financial management

This financial report is designed to provide a general overview of the Authority's finances to its customers and creditors, and to demonstrate the Authority's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert Monroe, Manager
Gun Lake Area Sewer Authority
12588 Marsh Road
Shelbyville, MI 49344

Phone: (269) 672-5588

BASIC FINANCIAL STATEMENTS

Gun Lake Area Sewer Authority
STATEMENT OF NET ASSETS
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 2,095,469	\$ 1,875,724
Receivables	128,285	96,852
Prepaid expenses	25,700	27,500
Inventory	-	9,900
Total current assets	<u>2,249,454</u>	<u>2,009,976</u>
Noncurrent assets - capital assets (net of accumulated depreciation)	<u>8,465,007</u>	<u>9,086,506</u>
Total assets	<u>10,714,461</u>	<u>11,096,482</u>
LIABILITIES		
Current liabilities:		
Accounts payable	14,666	22,757
Accrued expenses	<u>49,589</u>	<u>40,133</u>
Total current liabilities	<u>64,255</u>	<u>62,890</u>
NET ASSETS		
Invested in capital assets	8,465,007	9,086,506
Unrestricted	<u>2,185,199</u>	<u>1,947,086</u>
Total net assets	<u>\$ 10,650,206</u>	<u>\$ 11,033,592</u>

See notes to financial statements

Gun Lake Area Sewer Authority**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***Years ended December 31, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Charges for services:		
User fees	\$ 966,365	\$ 840,975
Water administration	25,681	26,250
Other	<u>5,962</u>	<u>21,920</u>
Total operating revenues	998,008	889,145
OPERATING EXPENSES	<u>1,509,580</u>	<u>1,431,212</u>
OPERATING LOSS	<u>(511,572)</u>	<u>(542,067)</u>
NONOPERATING REVENUES		
Connection fees	63,358	82,582
Interest	<u>64,828</u>	<u>36,060</u>
Total nonoperating revenues	<u>128,186</u>	<u>118,642</u>
CHANGE IN NET ASSETS	(383,386)	(423,425)
NET ASSETS - BEGINNING	<u>11,033,592</u>	<u>11,457,017</u>
NET ASSETS - ENDING	<u>\$ 10,650,206</u>	<u>\$ 11,033,592</u>

See notes to financial statements

Gun Lake Area Sewer Authority
STATEMENT OF CASH FLOWS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 967,935	\$ 896,250
Payments to suppliers	(546,621)	(474,064)
Payments to employees	<u>(328,394)</u>	<u>(319,898)</u>
Net cash provided by operating activities	<u>92,920</u>	<u>102,288</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	61,997	79,400
Purchase of capital assets	<u>-</u>	<u>(49,646)</u>
Net cash provided by capital and related financing activities	<u>61,997</u>	<u>29,754</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>64,828</u>	<u>36,060</u>
NET INCREASE IN CASH	219,745	168,102
CASH - BEGINNING	<u>1,875,724</u>	<u>1,707,622</u>
CASH - ENDING	<u>\$ 2,095,469</u>	<u>\$ 1,875,724</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (511,572)	\$ (542,067)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	621,500	624,596
(Increase) decrease in:		
Accounts receivable	(30,073)	7,105
Prepaid expenses	1,800	(2,700)
Inventory	9,900	(1,900)
Increase (decrease) in:		
Accounts payable	(8,091)	11,942
Accrued expenses	<u>9,456</u>	<u>5,312</u>
Net cash provided by operating activities	<u>\$ 92,920</u>	<u>\$ 102,288</u>

See notes to financial statements

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Gun Lake Area Sewer Authority (the Authority) was established June 21, 1977, by the Townships of Orangeville and Yankee Springs, in Barry County, and the Townships of Martin and Wayland, in Allegan County, and incorporated under provisions of Act 233, Public Act of 1955, as amended. The Authority is governed by a board comprised of the supervisors of the townships. The Authority was formed to operate, maintain, administer, and manage sewage disposal system, pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of each municipality.

The accounting policies of the Authority conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets and liabilities (continued):

iii) Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Treatment plant	5 - 40 years
Building equipment	20 years
Sewer lines	40 years
Equipment	3 - 7 years

iv) Compensated absences (vacation and sick leave) - The amount attributed to the Authority is charged to expense and a corresponding liability. Employees may accumulate unused sick leave up to a maximum of 120 days. Employees with ten or more years of service shall receive one-half of accumulated sick leave and all accumulated vacation days upon retirement.

NOTE 2 - CASH:

Cash, as presented in the accompanying financial statements, consists of the following:

Deposits	\$ 2,095,005
Cash on hand	<u>464</u>
Totals	<u>\$ 2,095,469</u>

Deposits with financial institutions - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2006, \$1,813,227 of the Authority's bank balances of \$2,123,221 was exposed to custodial credit risk, because it was uninsured and uncollateralized. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - RECEIVABLES:

Receivables (all of which are due within one year) as of year end for the Authority, in the aggregate, are as follows:

	<u>2006</u>	<u>2005</u>
Charges for services	\$ 80,303	\$ 61,471
Intergovernmental	<u>47,982</u>	<u>37,181</u>
Net receivables	<u>\$ 128,285</u>	<u>\$ 98,652</u>

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, being depreciated:				
Land improvements	\$ 119,219	\$ -	\$ -	\$ 119,219
Collection and interceptor sewers	15,769,379	-	-	15,769,379
Lift stations	4,764,209	-	-	4,764,209
Tele-metering system	303,362	-	-	303,362
Treatment facility	5,444,384	-	-	5,444,384
Machinery and equipment	<u>268,819</u>	<u>-</u>	<u>-</u>	<u>268,819</u>
Subtotal	<u>26,669,372</u>	<u>-</u>	<u>-</u>	<u>26,669,372</u>
Less accumulated depreciation for:				
Land improvements	(4,253)	(669)	-	(4,922)
Collection and interceptor sewers	(9,896,403)	(395,370)	-	(10,291,773)
Lift stations	(3,701,719)	(72,247)	-	(3,773,966)
Tele-metering system	(303,362)	-	-	(303,362)
Treatment facility	(3,440,592)	(142,872)	-	(3,583,464)
Machinery and equipment	<u>(236,537)</u>	<u>(10,341)</u>	<u>-</u>	<u>(246,878)</u>
Subtotal	<u>(17,582,866)</u>	<u>(621,499)</u>	<u>-</u>	<u>(18,204,365)</u>
Net capital assets	<u>\$ 9,086,506</u>	<u>\$ (621,499)</u>	<u>\$ -</u>	<u>\$ 8,465,007</u>

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS (Continued):

Capital asset activity of the Authority for the year ended December 31, 2005, was as follows (continued):

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets, being depreciated:				
Land improvements	\$ 94,144	\$ 25,075	\$ -	\$ 119,219
Collection and interceptor sewers	15,769,379	-	-	15,769,379
Lift stations	4,764,209	-	-	4,764,209
Tele-metering system	303,362	-	-	303,362
Treatment facility	5,448,559	-	(4,175)	5,444,384
Machinery and equipment	252,534	24,571	(8,286)	268,819
Subtotal	26,632,187	49,646	(12,461)	26,669,372
Less accumulated depreciation for:				
Land improvements	(3,584)	(669)	-	(4,253)
Collection and interceptor sewers	(9,500,882)	(395,521)	-	(9,896,403)
Lift stations	(3,629,472)	(72,247)	-	(3,701,719)
Tele-metering system	(303,362)	-	-	(303,362)
Treatment facility	(3,302,154)	(142,613)	4,175	(3,440,592)
Machinery and equipment	(231,277)	(13,546)	8,286	(236,537)
Subtotal	(16,970,731)	(624,596)	12,461	(17,582,866)
Net capital assets	\$ 9,661,456	\$ (574,950)	\$ -	\$ 9,086,506

NOTE 5 - DEFINED CONTRIBUTION PLAN:

The Authority contributes to a defined contribution pension plan covering substantially all of its employees. The Authority contributes 6.5% of annual employee compensation to the plan and the employees can voluntarily contribute up to 20% of their annual compensation. The Authority made the required contributions of \$20,563 and \$19,803 and the employees made their voluntary contributions of \$17,004 and \$17,124 for 2006 and 2005, respectively.

The Authority is not a trustee of these plans, nor is it responsible for investment management of plan assets.

NOTE 6 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$7,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

The Authority is self-insured for any liability associated with its underground fuel storage tanks and has pledged the assets owned by the Authority in conjunction with the self-insurance certification.

SUPPLEMENTAL INFORMATION

Gun Lake Area Sewer Authority**STATEMENT OF OPERATING EXPENSES BEFORE DEPRECIATION -
BUDGET TO ACTUAL**

Year ended December 31, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Salaries and wages	\$ 337,619	\$ 347,118	\$ (9,499)
Payroll taxes	25,828	25,828	-
Insurance:			
Health	113,632	112,132	1,500
Life	2,870	2,870	-
Liability	31,295	31,595	(300)
Pension contribution	20,563	20,563	-
Postage	2,980	2,980	-
Office supplies	1,783	1,783	-
Software support	2,105	2,105	-
Lab testing	985	985	-
Clothing allowance	3,000	3,000	-
Lab supplies	3,493	3,493	-
Collection system	53,843	53,843	-
Plant operations	23,736	36,636	(12,900)
Chemicals	23,789	20,635	3,154
Biosolid disposal	24,272	20,350	3,922
Repairs and maintenance:			
Collection	7,530	-	7,530
Plant	14,518	14,518	-
Radio	420	420	-
Audit	4,325	4,325	-
Legal	606	606	-
Professional services	5,533	8,031	(2,498)
Telephone	4,939	4,939	-
Gasoline	9,382	9,382	-
Diesel fuel	10,516	10,516	-
Shipping	103	103	-
Printing	1,169	1,169	-
Utilities	143,752	140,239	3,513
Garbage service	617	617	-
Contracted services	4,970	4,970	-
Dues, memberships, and education	1,923	1,923	-
Other	406	406	-
	<u>\$ 882,502</u>	<u>\$ 888,080</u>	<u>\$ (5,578)</u>

Siegfried Crandall PC

Certified Public Accountants & Advisors

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Fax 269-349-1344

February 9, 2007

Members of the Authority Board
Gun Lake Area Sewer & Water Authority

In planning and performing our audit of the financial statements of The Gun Lake Area Sewer Authority as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered The Gun Lake Area Sewer Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The Authority does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Trustees of the Gun Lake Area Sewer Authority, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.